

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**

**YEAR ENDED JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Mecosta-Osceola Intermediate School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2008, on our consideration of Mecosta-Osceola Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiv and 25 through 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mecosta-Osceola Intermediate School District's basic financial statements. The additional information on pages 29 through 31 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Mayer, Costeniser & Ellis, P.C.*

September 8, 2008

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

As management of the Mecosta-Osceola Intermediate School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

**Financial Highlights**

Our financial statements provide these insights into the results of this year's operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$13,502,219 (*net assets*). Of this amount, \$9,351,492 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets increased by \$971,848.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$9,755,756, a increase of \$900,731 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating funds (general fund, special education fund, and vocational education fund) was \$9,709,858 or 49% of the total expenditures of these operating funds. On pages xi and xii you will find a breakdown of the designated and undesignated balance of the three major funds.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the District include instruction, support services, community service and transfers to locals and other services. The District has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 2 and 3 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental fund type category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains numerous governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special education fund, and the vocational education fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts annual appropriated budgets for its general, special education and vocational education budgets. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4 and 5 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 23 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 25 through 27 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the supplementary information. Combining fund statements can be found on pages 29 and 30 of this report.

Our auditor has provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Additional Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the other parts in the financial section.

### **Government-wide Financial Analysis**

The District's net assets were \$13,502,219 at June 30, 2008. Of this amount, \$9,351,492 was unrestricted, a increase of \$897,008 from last fiscal year.

The following table shows the District's net assets in 2008 and 2007.

<b>District's Net Assets</b>		
<b>Mecosta-Osceola Intermediate School District</b>		
	<b>2008</b>	<b>2007</b>
<b>Assets:</b>		
Current assets	\$ 12,201,683	\$ 10,542,234
Noncurrent assets	4,523,037	4,483,120
<b>Total assets</b>	<b>16,724,720</b>	<b>15,025,354</b>
<b>Liabilities:</b>		
Current liabilities	2,772,372	1,868,675
Noncurrent liabilities	450,129	626,308
<b>Total liabilities</b>	<b>3,222,501</b>	<b>2,494,983</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	4,150,727	4,075,887
Unrestricted	9,351,492	8,454,484
<b>Total net assets</b>	<b>\$ 13,502,219</b>	<b>\$ 12,530,371</b>

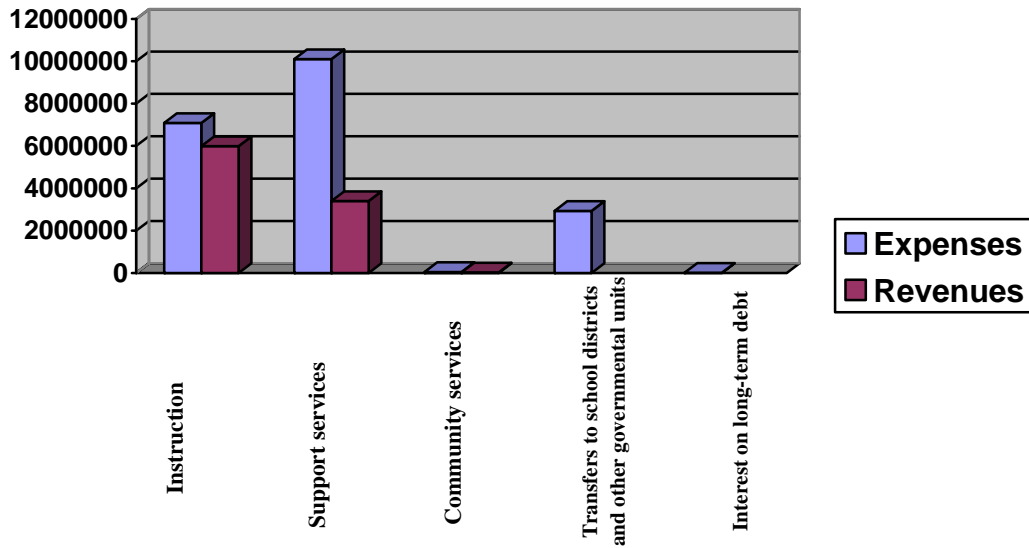


Mecosta-Osceola Intermediate School District		
Changes in net assets		
	Governmental Activities	
	2008	2007
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 855,678	\$ 919,153
Operating grants	8,556,460	8,504,853
General revenue:		
Property taxes, levied for general purposes	485,212	456,999
Property taxes, levied for special education	6,499,165	4,276,466
Property taxes, levied for vocational education	2,916,035	2,739,986
Investment earnings	299,981	375,830
State sources	755,295	759,975
Other	775,283	695,871
<b>Total revenue</b>	<b>21,143,109</b>	<b>18,729,133</b>
<b>Expenses:</b>		
Instruction	7,083,258	7,444,551
Supporting services	10,099,090	10,077,521
Community services	45,570	103,294
Transfers to school districts and other governmental units	2,933,736	1,063,293
Interest on long-term debt	9,607	60,034
<b>Total expenses</b>	<b>20,171,261</b>	<b>18,748,693</b>
<b>Change in net assets</b>	<b>971,848</b>	<b>(19,560)</b>
<b>Net assets, beginning of year</b>	<b>12,530,371</b>	<b>12,549,931</b>
<b>Net assets, end of year</b>	<b>\$ 13,502,219</b>	<b>\$ 12,530,371</b>

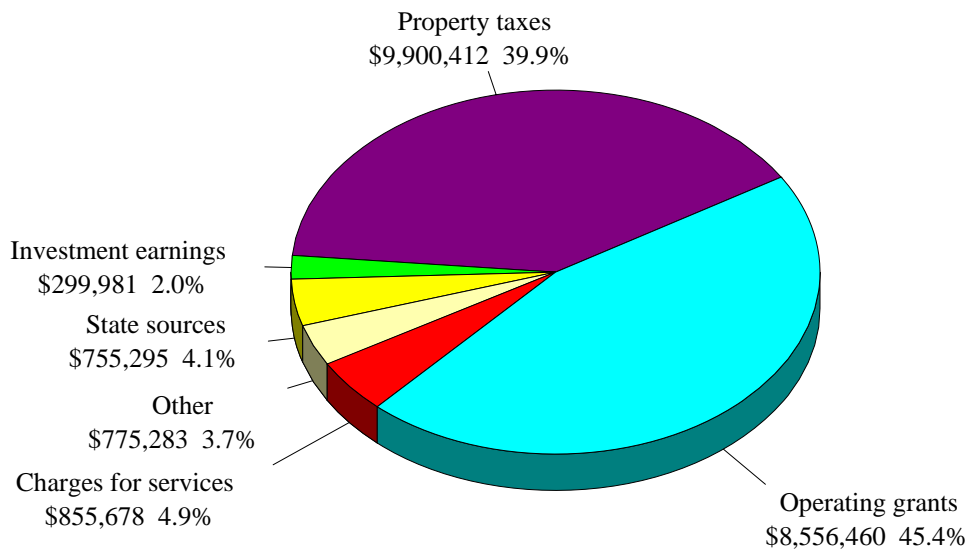
**Governmental Activities.** Net assets increased by \$971,848. Key elements of this increase are as follows:

- Management's tight control over expenditures
- Increases in the special education millages
- Completion of the renovation in the career center in the prior year
- Increase in property taxes due to change in IFT revenue allocation

**Expenses and Program Revenues – Governmental Activities  
Year ended June 30, 2008**



**Revenues by Source – District Activities  
Year ended June 30, 2008**



## **Major Governmental Funds Budgeting and Operating Highlights**

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the general fund, special education fund, and vocational education fund.

During the fiscal year ended June 30, 2008, the District amended the budgets of these major governmental funds two times.

**General Fund** - The general fund actual revenue was \$1.86 million. That amount is below the original budget estimate of \$2.09 million and below the final budget amendment of \$1.96 million. The variance between the actual revenue and final budget was the result of state funds that were anticipated in 2007-08 and deferred to the 2008-09 fiscal year.

The actual expenditures of the general fund were \$1.91 million, which is below the original budget of \$2.13 million and below the final amendment of \$2.10 million. The variance can also be attributed to state and grant expenditures.

General fund had total revenues of \$1.86 million and total expenditures of \$1.91 million with an ending fund balance of \$1.43 million.

**Special Education Fund** - The special education fund actual revenue was \$15.17 million. That amount is above the original budget of \$14.06 million and above the final amendment of \$14.84 million. The variance was the result of additional receipts relating to IFT funds and an increase in funding from the state, as a result of adjustments based on reports filed for the previous fiscal year.

The actual expenditures of the special education fund were \$14.17 million, which is below the original budget of \$14.23 million and below the final amendment of \$14.64 million. The variance was the result of containing expenditures throughout the Special Education Fund.

Special education fund had total revenue of \$15.17 million and total expenditures of \$14.17 million with an ending fund balance of \$5.16 million.

**Vocational Education Fund** - The career and technical education fund actual revenue was \$3.81 million. That amount is above the original budget of \$3.70 million and above the final amendment of \$3.74 million.

The actual expenditures were \$3.60 million, which is below the original budget of \$4.14 million and below the final amendment of \$4.04 million. The variance was due to lower than anticipated added needs expenditures.

Vocational education fund had total revenue of \$3.81 million and total expenditures of \$3.60 million with an ending fund balance of \$3.11 million.

**Governmental Funds** - The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved and undesignated, was \$122,451, while total fund balance of the general fund was \$1,432,909. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents approximately 6% of total general fund expenditures and operating transfers out, while total fund balance represents 69%.

The fund balance of the District's general fund decreased by \$208,869 during the current fiscal year. The largest revenue source in this fund is state revenue which includes state aid. Expenditures consist primarily of costs associated with supporting early education, learning resources, and a portion of the executive administration and fiscal services of the District.

The special education fund at year end had unreserved and undesignated fund balance of \$2,057,008, while total fund balance of the special education fund was \$5,162,728. Unreserved, undesignated fund balance represents approximately 14% of total special education fund expenditures and operating transfers out, while total fund balance represents approximately 36%.

The fund balance of the District's special education fund increased by \$935,857 from the prior year. These resources are restricted for special education programs administered by the District and transfers to local districts for special education programs. The largest portion of this fund's revenues come from state revenue which includes state aid; while the largest expenditures are for the center and categorical programs and pupil support services to the local districts which include a large number of itinerant staff.

The vocational education fund at year end had unreserved and undesignated fund balance of \$566,658, while total fund balance of the vocational education fund was \$3,114,221. Unreserved, undesignated fund balance represents approximately 15% of total vocational education fund expenditures and operating transfers out, while total fund balance represents approximately 82%.

The fund balance of the District's vocational education (career and technical education) fund increased by \$174,697 from the prior year. These resources are restricted for career and technical education purposes. The largest portion of this fund's revenues comes from property taxes while the expenditures are for the programs at the Technical Center.

The cooperative education fund at year end had unreserved and undesignated fund balance of \$45,898, while total fund balance of the cooperative education fund was \$45,898. Unreserved, undesignated fund balance represents approximately 12% of total cooperative education fund expenditures and operating transfers out, while total fund balance represents approximately 12%.

The fund balance of the District's cooperative education fund decreased by \$4,540 from the prior year. These resources are restricted to provide professional services to the local school districts within the intermediate school district. The largest portion of this fund's revenues comes from interdistrict sources while the expenditures are for the professional services provided.

### **Capital Asset and Debt Administration**

**Capital Assets** – At the end of fiscal year 2008, the District had \$8.17 million invested in land, buildings, and office and instructional equipment. Of this amount, \$3.69 million in depreciation has been taken over the years. The District has net capital assets of \$4.49 million.

<b>Mecosta-Osceola Intermediate School District's (Net of depreciation) June 30,</b>		
	<b>2008</b>	<b>2007</b>
Land	\$ 110,235	\$ 110,235
Land improvements	60,299	60,299
Buildings and improvements	5,247,769	5,070,555
Buses and other vehicles	810,279	865,263
Furniture and equipment	1,947,857	1,836,539
Work in process		25,785
Subtotal	8,176,439	7,968,676
Accumulated depreciation	3,687,731	3,554,808
<b>Total</b>	<b>\$ 4,488,708</b>	<b>\$ 4,413,868</b>

Additional information on the District's capital assets can be found in Note 6 of this report.

**Long-term Debt** - at the end of the current fiscal year, the District had a total bonded debt outstanding of \$337,981. Of this balance, \$337,981 is not a general obligation of the District and does not constitute an indebtedness of the District within any constitutional or statutory limitation, and is payable solely from state aid payments from the State of Michigan.

The District's total debt increased by \$28,535 during the current fiscal year, with no new debt issuances. Additional information on the District's long-term debt can be found in Note 7 of this report.

### **Economic Factors and Next Year's Budget**

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future.

The continual sluggish economy in the State of Michigan has placed state aid funding for 2008-2009 in a possible position of being prorated. State sources of revenue total \$6.22 million of the budget. Any proration of these funds could have an impact on the long-term financial stability of the District and force a further reduction in services.

The District has been able to increase fund balance over the past two years a total of \$668,692. The three major funds are projected, however; to utilize a portion of the fund balance for 2008-09. If the State's sluggish economy should continue, the District will be forced to reduce expenditures by cutting services, search for new revenue sources, and for the first time in many years, borrow money for short-term cash flow purposes.

The Michigan Public School Employees Retirement System contribution decreased to 16.72% in 2007-08, from 17.74% in 2006-07. It is projected to rise over the next ten years. In addition, health insurance is expected to rise another 10-15% next year. These increases may disrupt the financial stability of the District unless changes are made in the retirement system or employee health insurance program.

### **Requests for information**

This financial report is designed to provide our citizens, taxpayers, and customers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Denise Robinson, Director of Finance and Operations, Mecosta-Osceola ISD, 15760 190<sup>th</sup> Avenue, Big Rapids, MI 49307-9096.

## **BASIC FINANCIAL STATEMENTS**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

<b>ASSETS</b>	<b><u>Governmental activities</u></b>
<b>CURRENT ASSETS:</b>	
Cash	\$ 1,732,926
Investments	8,458,051
Receivables:	
Accounts receivable	2,813
Taxes receivable	52,542
Due from other governmental units	1,694,722
Inventories	126,987
Prepaid expenditures	99,313
Current portion of long-term receivable - local districts	<u>34,329</u>
<b>TOTAL CURRENT ASSETS</b>	<u>12,201,683</u>
<b>NONCURRENT ASSETS:</b>	
Non-current portion of long-term receivable - local districts	34,329
Capital assets	8,176,439
Less accumulated depreciation	<u>(3,687,731)</u>
<b>TOTAL NONCURRENT ASSETS</b>	<u>4,523,037</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 16,724,720</u></u>

See notes to financial statements.



<b>LIABILITIES AND NET ASSETS</b>		<b>Governmental activities</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$	536,114
Accrued salaries and related items		1,017,005
Accrued interest		68,112
Due to local school districts		657,056
Deferred revenue		217,539
Current portion of long-term obligations		194,660
Current portion of termination benefits		81,886
<b>TOTAL CURRENT LIABILITIES</b>		<b>2,772,372</b>
<b>NONCURRENT LIABILITIES:</b>		
Noncurrent portion of long-term obligations		143,321
Noncurrent portion of compensated absences and termination benefits		306,808
<b>TOTAL NONCURRENT LIABILITIES</b>		<b>450,129</b>
<b>TOTAL LIABILITIES</b>		<b>3,222,501</b>
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt		4,150,727
Unrestricted		9,351,492
<b>TOTAL NET ASSETS</b>		<b>13,502,219</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>16,724,720</b>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense)
				revenue and changes in net assets
Governmental activities:				
Instruction	\$ 7,083,258	\$ 338,172	\$5,645,751	\$ (1,099,335)
Support services	10,099,090	517,506	2,883,763	(6,697,821)
Community services	45,570	-	26,946	(18,624)
Transfers to school districts and other governmental units	2,933,736	-	-	(2,933,736)
Interest on long-term debt	9,607	-	-	(9,607)
Total governmental activities	<u>\$ 20,171,261</u>	<u>\$ 855,678</u>	<u>\$ 8,556,460</u>	<u>(10,759,123)</u>
General revenues:				
Property taxes, levied for general purposes				485,212
Property taxes, levied for special education				6,499,165
Property taxes, levied for vocational education				2,916,035
Investment earnings				299,981
State sources not restricted to specific purposes				755,295
Other				775,283
Total general revenues				<u>11,730,971</u>
CHANGE IN NET ASSETS				971,848
NET ASSETS, beginning of year				<u>12,530,371</u>
NET ASSETS, end of year				<u>\$ 13,502,219</u>

MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTALFUNDS  
JUNE 30, 2008

	Special revenue				
	General fund	Special Education fund	Vocational Education fund	Other nonmajor governmental funds	Total governmental funds
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 656,224	\$ 615,167	\$ 431,715	\$ 29,820	\$ 1,732,926
Investments	791,185	4,939,589	2,727,277	-	8,458,051
Receivables:					
Property taxes receivable	2,222	33,389	16,931	-	52,542
Accounts receivable	37	525	2,251	-	2,813
Due from other governmental units	229,482	1,418,235	99,907	15,756	1,763,380
Inventories	-	-	126,987	-	126,987
Prepaid expenditures	68,227	22,762	7,502	822	99,313
TOTAL ASSETS	\$ 1,747,377	\$ 7,029,667	\$ 3,412,570	\$ 46,398	\$ 12,236,012
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 79,404	\$ 362,593	\$ 93,617	\$ 500	\$ 536,114
Accrued salaries and related items	43,988	785,216	187,801	-	1,017,005
Due to local school districts	24,560	632,496	-	-	657,056
Deferred revenue	166,516	86,634	16,931	-	270,081
TOTAL LIABILITIES	314,468	1,866,939	298,349	500	2,480,256

	Special revenue				
	General fund	Special Education fund	Vocational Education fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:					
Reserved for inventories	\$ -	\$ -	\$ 126,987	\$ -	\$ 126,987
Reserved for prepaid expenditures	68,227	22,762	7,502	-	98,491
Unreserved:					
Designated for future expansion	1,105,865	2,718,188	2,320,827	-	6,144,880
Designated for compensated absences	25,564	270,784	92,247	-	388,595
Designated for subsequent year expenditures	110,802	93,986	-	-	204,788
Undesignated	122,451	2,057,008	566,658	45,898	2,792,015
TOTAL FUND BALANCES	1,432,909	5,162,728	3,114,221	45,898	9,755,756
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,747,377	\$ 7,029,667	\$ 3,412,570	\$ 46,398	\$ 12,236,012
Total governmental fund balances					\$ 9,755,756

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of the capital assets is  
Accumulated depreciation is

\$ 8,176,439  
(3,687,731)

4,488,708

Other long-term assets are not available to pay for current period expenditures:  
Balance of tax receivable at June 30, 2008, less allowance for doubtful accounts, collected after September 1, 2008

52,542

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable  
Compensated absences and termination benefits  
Accrued interest is not included as a liability in government funds, it is recorded when paid

(337,981)  
(388,694)  
(68,112)

Net assets of governmental activities

\$ 13,502,219

MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTALFUNDS  
YEAR ENDED JUNE 30, 2008

	Special revenue			Other	Total
	General Fund	Special Education fund	Vocational Education fund	nonmajor governmental funds	governmental funds
REVENUES:					
Local sources:					
Property taxes	\$ 484,096	\$ 6,476,151	\$ 2,905,746	\$ -	\$ 9,865,993
Tuition	-	-	28,810	-	28,810
Investment earnings	52,246	147,355	101,033	-	300,634
Community service	25	676,723	-	-	676,748
Student actvities	-	-	93,662	-	93,662
Other	24,984	933	2,515	-	28,432
Total local sources	561,351	7,301,162	3,131,766	-	10,994,279
State sources	779,737	5,119,041	322,596	-	6,221,374
Federal sources	112,750	2,651,435	356,096	-	3,120,281
Interdistrict sources	403,578	100,548	-	255,654	759,780
Total revenues	1,857,416	15,172,186	3,810,458	255,654	21,095,714
EXPENDITURES:					
Current:					
Instruction	383,926	4,593,798	2,002,721	-	6,980,445
Supporting services	1,290,577	7,071,643	1,362,406	372,219	10,096,845
Community service activities	25,600	5,504	14,466	-	45,570
Capital outlay	-	-	-	151,363	151,363
Transfer to school districts and other governmental units	213,069	2,498,176	222,491	-	2,933,736
Total expenditures	1,913,172	14,169,121	3,602,084	523,582	20,207,959

	Special revenue			Other	Total
	General Fund	Special Education fund	Vocational Education fund	nonmajor governmental funds	governmental funds
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (55,756)	\$ 1,003,065	\$ 208,374	\$ (267,928)	\$ 887,755
OTHER FINANCING SOURCES (USES):					
Proceeds from sale of capital assets	-	10,976	2,000	-	12,976
Operating transfers from other funds	-	-	156,368	266,974	423,342
Operating transfers to other funds	(153,113)	(78,184)	(192,045)	-	(423,342)
Total other financing sources (uses)	(153,113)	(67,208)	(33,677)	266,974	12,976
NET CHANGE IN FUND BALANCES	(208,869)	935,857	174,697	(954)	900,731
FUND BALANCES:					
Beginning of year	1,641,778	4,226,871	2,939,524	46,852	8,855,025
End of year	\$ 1,432,909	\$ 5,162,728	\$ 3,114,221	\$ 45,898	\$ 9,755,756

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008**

**Net change in fund balances total governmental funds** **\$ 900,731**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(256,444)
Capital outlay	338,881
Loss on disposal of capital assets	(7,597)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	58,505
Accrued interest payable, end of the year	(68,112)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(18,123)
Deferred revenue, end of the year	52,542

Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	360,159
Accrued compensated absences and termination benefits, end of the year	<u>(388,694)</u>

**Change in net assets of governmental activities** **\$ 971,848**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
JUNE 30, 2008**

	<u>Electrical Consortium Agency fund</u>
<b>ASSETS</b>	
Due from other governmental units	<u>\$ 108,465</u>
<b>LIABILITIES</b>	
Checks written against future deposits	\$ 76,087
Accounts payable	<u>32,378</u>
	<u>\$ 108,465</u>

## **MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Mecosta-Osceola Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

#### **A. Reporting Entity**

Mecosta-Osceola Intermediate School District (the "District") is governed by the Mecosta-Osceola Intermediate School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Nos. 14 and 39.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in two parts - invested in capital assets, net of related debt and unrestricted net assets.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *general fund* is the District's primary administrative fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *special education special revenue fund* which accounts for special education programs.

The *vocational education special revenue fund* which accounts for technical education programs.



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and Fund Financial Statements (Concluded)**

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its cooperative education in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. This is maintained for the Durant debt.

The *capital projects fund* is comprised of the vocational education capital project fund. Funds are transferred from the vocational education fund specially designated for acquiring equipment, vehicles, and for major remodeling and repairs. These funds are retained until the purpose for which the funds were created has been accomplished.

**Fiduciary Funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *electrical consortium agency* fund records the electricity activities of the local school districts who participate in the electrical consortium. The District acts as a pass-through for the local school districts' costs with the electrical company.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

2. Property taxes (Concluded)

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund	0.2494
Special revenue funds:	
Special education fund	3.3395
Vocational education fund	1.4970

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

Inventories of the vocational education fund are comprised principally of land held for resale and a house held for resale.

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 - 50 years
Buses and other vehicles	5 - 10 years
Furniture and other equipment	5 - 10 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District's policies generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight-line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2008, the District had the following investments:

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard &amp; Poor's Rating</u>	<u>%</u>
MILAF External Investment pool-CMF	<u>\$ 764,496</u>	0.0027	AAAm	<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$8,999,778 of the District's bank balance of \$9,785,503 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the above figures are certificates of deposits of \$7,352,949. The carrying amount is \$9,350,394.

**Custodial credit risk – investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 3:

Deposits	\$ 9,350,394
Investments	<u>764,496</u>
	<u><u>\$ 10,114,890</u></u>

The above amounts are reported in the financial statements as follows:

District-wide:	
Cash	\$ 1,732,926
Investments	8,458,051
Fiduciary fund	
Checks written against future deposits	<u>(76,087)</u>
	<u><u>\$ 10,114,890</u></u>



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - RECEIVABLES**

Receivables at June 30, 2008 consist of the following:

	Government wide
State aid	\$ 996,793
Medicaid	158,241
Federal revenue	483,215
Local/intermediate sources	56,473
	<u>\$ 1,694,722</u>

No allowance for doubtful accounts is considered necessary based on previous experience.

**NOTE 5 - LONG-TERM RECEIVABLE**

For the year ended June 30, 2007, Mecosta-Osceola Intermediate School District purchased student management software on behalf of its locals. The local school districts will reimburse the District over the course of three years. The remaining funds to be collected is as follows:

Year	Amount
2009	\$ 34,329
2010	34,329
	<u>\$ 68,658</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - CAPITAL ASSETS**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Assets not being depreciated:				
Land	\$ 110,235	\$	\$	\$ 110,235
Work in process	25,785		(25,785)	-
Subtotal	136,020	-	(25,785)	110,235
Other capital assets:				
Land improvements	60,299			60,299
Buildings and improvements	5,070,555	177,214		5,247,769
Buses and other vehicles	865,263	58,150	(113,134)	810,279
Furniture and equipment	1,836,539	129,302	(17,984)	1,947,857
Subtotal	7,832,656	364,666	(131,118)	8,066,204
Accumulated depreciation:				
Land improvements	15,615	2,888		18,503
Buildings and improvements	1,690,035	102,164		1,792,199
Buses and other vehicles	613,967	62,395	(105,537)	570,825
Office and instructional equipment	1,235,191	88,997	(17,984)	1,306,204
Subtotal	3,554,808	256,444	(123,521)	3,687,731
Net capital assets being depreciated	4,277,848	108,222	(7,597)	4,378,473
Net governmental capital assets	<u>\$4,413,868</u>	<u>\$ 108,222</u>	<u>\$ (33,382)</u>	<u>\$ 4,488,708</u>

Depreciation for the fiscal year ended June 30, 2008 amounted to \$256,444. The District allocated depreciation to the various activities as follows:

Governmental activities:	
Instruction	\$ 149,606
Support services	<u>106,838</u>
Total governmental activities	<u>\$ 256,444</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT**

The District issues bonds, notes, and other contractual commitments to funds for the acquisition, construction and improvement of major facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Notes and installment purchase agreements are also general obligations to the District. Other long-term obligations include employee compensated absences.

Long-term obligations currently outstanding are as follows:

	Durant non-plaintiff bond	Employee- compensated absences	Total
Balance, July 1, 2007	\$ 337,981	\$ 360,159	\$ 698,140
Additions		38,896	38,896
Deletions		(10,361)	(10,361)
Balance, June 30, 2008	337,981	388,694	726,675
Less current portion	194,660	81,886	276,546
Total due after one year	<u>\$ 143,321</u>	<u>\$ 306,808</u>	<u>\$ 450,129</u>

Bonds payable at June 30, 2008 are comprised of the following issues:

1998 limited obligation bonds (Durant bonds) due in annual installments of \$33,371 to \$194,660 due May 15, 2013, with interest at 4.76%. Certain state aid payments have been pledged as security.	\$ 337,981
Compensated absences	<u>388,694</u>
Total general long-term debt	<u>\$ 726,675</u>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LONG-TERM DEBT (Concluded)**

The annual requirements to amortize long-term obligations outstanding exclusive of compensated absences as of June 30, 2008, including interest of \$92,868 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 194,660	\$ 75,411	\$ 270,071
2010	33,371	6,824	40,195
2011	34,961	5,235	40,196
2012	36,623	3,571	40,194
2013	38,366	1,827	40,193
	<u>\$ 337,981</u>	<u>\$ 92,868</u>	<u>\$ 430,849</u>

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)**

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 17.74% through September 2007 and 16.72% for October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were \$1,511,905, \$1,526,511, and \$1,277,219, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement and post-retirement benefits which is the responsibility of the State of Michigan.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

**NOTE 10 - INTERFUND TRANSFERS**

The composition of interfund transfers at June 30, 2008 is as follows:

Transfers Out				
	General fund	Special education fund	Vocational education fund	Total
Transfers in:				
Vocational education	\$ 78,184	\$ 78,184	\$ -	\$ 156,368
Other nonmajor governmental funds	74,929	-	192,045	266,974
Total	<u>\$ 153,113</u>	<u>\$ 78,184</u>	<u>\$ 192,045</u>	<u>\$ 423,342</u>

Transfers provided funding for vocational education technology department, capital projects and operations and maintenance services.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 569,403	\$ 569,699	\$ 561,351	\$ (8,348)
State sources	917,410	831,782	779,737	(52,045)
Federal sources	158,031	141,885	112,750	(29,135)
Interdistrict sources	448,672	411,677	403,578	(8,099)
Total revenues	2,093,516	1,955,043	1,857,416	(97,627)
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	452,596	421,084	382,015	39,069
Added needs	3,500	2,500	1,911	589
Total instruction	456,096	423,584	383,926	39,658
Supporting services:				
Pupil	127,770	85,427	73,907	11,520
Instructional staff	440,617	415,467	359,677	55,790
General administration	173,342	167,530	159,125	8,405
Business	253,005	240,881	237,937	2,944
Operation/maintenance	144,788	144,988	127,560	17,428
Pupil transportation	15,600	15,700	10,744	4,956
Central	252,640	337,554	321,627	15,927
Total supporting services	1,407,762	1,407,547	1,290,577	116,970
Community services	54,319	42,795	25,600	17,195
Transfer to school districts and other governmental units	206,914	226,188	213,069	13,119
Total expenditures	2,125,091	2,100,114	1,913,172	186,942
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(31,575)	(145,071)	(55,756)	89,315
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers to other funds	(105,614)	(159,885)	(153,113)	6,772
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (137,189)</u>	<u>\$ (304,956)</u>	<u>(208,869)</u>	<u>\$ 96,087</u>
<b>FUND BALANCE:</b>				
Beginning of year			1,641,778	
End of year			<u>\$ 1,432,909</u>	



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 7,065,947	\$ 7,017,947	\$ 7,301,162	\$ 283,215
State sources	4,124,614	4,857,572	5,119,041	261,469
Federal sources	2,746,797	2,870,147	2,651,435	(218,712)
Interdistrict sources	123,526	96,526	100,548	4,022
Total revenues	14,060,884	14,842,192	15,172,186	329,994
<b>EXPENDITURES:</b>				
Instruction:				
Added needs	4,764,263	4,852,229	4,593,798	258,431
Supporting services:				
Pupil	4,705,753	4,638,881	4,517,745	121,136
Instructional staff	777,004	948,556	805,238	143,318
General administration	106,391	96,991	70,597	26,394
Business	445,013	479,908	436,356	43,552
Operation/maintenance	238,163	244,463	172,635	71,828
Pupil transportation	874,143	879,971	878,997	974
Central	159,688	202,287	190,075	12,212
Total supporting services	7,306,155	7,491,057	7,071,643	419,414
Community services	7,600	17,778	5,504	12,274
Transfer to school districts and other governmental units	2,153,999	2,273,999	2,498,176	(224,177)
Total expenditures	14,232,017	14,635,063	14,169,121	465,942
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(171,133)</u>	<u>207,129</u>	<u>1,003,065</u>	<u>795,936</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets			10,976	10,976
Operating transfers to other funds	(79,040)	(86,290)	(78,184)	8,106
Total other financing sources (uses)	(79,040)	(86,290)	(67,208)	19,082
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (250,173)</u>	<u>\$ 120,839</u>	<u>935,857</u>	<u>\$ 815,018</u>
<b>FUND BALANCE:</b>				
Beginning of year			4,226,871	
End of year			<u>\$ 5,162,728</u>	

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
VOCATIONAL EDUCATION FUND  
YEAR ENDED JUNE 30, 2008**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget- positive (negative)</b>
<b>REVENUES:</b>				
Local sources	\$ 2,972,074	\$ 3,037,074	\$ 3,131,766	\$ 94,692
State sources	375,780	350,690	322,596	(28,094)
Federal sources	356,096	356,096	356,096	-
Total revenues	3,703,950	3,743,860	3,810,458	66,598
<b>EXPENDITURES:</b>				
Instruction:				
Added needs	2,243,415	2,266,284	2,002,721	263,563
Supporting services:				
Pupil	332,717	302,062	285,809	16,253
Instructional staff	11,000	17,000	14,566	2,434
General administration	62,518	62,518	56,043	6,475
School administration	248,364	248,364	236,111	12,253
Business	221,720	224,720	198,057	26,663
Operation/maintenance	422,511	344,015	256,964	87,051
Central	312,332	295,445	277,550	17,895
Other	45,000	39,000	37,306	1,694
Total supporting services	1,656,162	1,533,124	1,362,406	170,718
Community services	19,152	19,152	14,466	4,686
Transfer to school districts and other governmental units	222,491	222,491	222,491	-
Total expenditures	4,141,220	4,041,051	3,602,084	438,967
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(437,270)</b>	<b>(297,191)</b>	<b>208,374</b>	<b>505,565</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of capital assets	-	-	2,000	2,000
Operating transfers from other funds	158,077	158,077	156,368	(1,709)
Operating transfers to other funds	(150,000)	(193,603)	(192,045)	1,558
Total other financing sources (uses)	8,077	(35,526)	(33,677)	1,849
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (429,193)</b>	<b>\$ (332,717)</b>	<b>174,697</b>	<b>\$ 507,414</b>
<b>FUND BALANCE:</b>				
Beginning of year			2,939,524	
End of year			<u>\$ 3,114,221</u>	

## **ADDITIONAL INFORMATION**

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2008**

	<b>Cooperative education special revenue fund</b>	<b>Vocational education capital project fund</b>	<b>Total nonmajor governmental funds</b>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 29,820	\$ -	\$ 29,820
Due from other governmental units	15,756	-	15,756
Prepaid expenditures	822	-	822
<b>TOTAL ASSETS</b>	<b>\$ 46,398</b>	<b>\$ -</b>	<b>\$ 46,398</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 500	\$ -	\$ 500
<b>FUND BALANCES:</b>			
Unreserved, undesignated	45,898	-	45,898
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 46,398</b>	<b>\$ -</b>	<b>\$ 46,398</b>

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2008**

	<b>Cooperative education special revenue fund</b>	<b>Vocational education capital project fund</b>	<b>Total nonmajor governmental funds</b>
<b>REVENUES:</b>			
Interdistrict sources	\$ 255,654	\$ -	\$ 255,654
<b>EXPENDITURES:</b>			
Support services:			
Instruction	33,611	-	33,611
General administration	23,520	-	23,520
Business	20,997	-	20,997
Operation/maintenance	115,580	-	115,580
Central support	178,511	-	178,511
Capital outlay	-	151,363	151,363
Total expenditures	372,219	151,363	523,582
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	(116,565)	(151,363)	(267,928)
<b>OTHER FINANCING SOURCES:</b>			
Operating transfers from other funds	112,025	154,949	266,974
<b>NET CHANGE IN FUND BALANCES</b>	(4,540)	3,586	(954)
<b>FUND BALANCES:</b>			
Beginning of year	50,438	(3,586)	46,852
End of year	\$ 45,898	\$ -	\$ 45,898

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS  
DURANT NON-PLAINTIFF BOND  
YEAR ENDED JUNE 30, 2008**

<u>Year ending June 30,</u>	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
2009	\$ 194,660	\$ 75,411	\$ 270,071
2010	33,371	6,824	40,195
2011	34,961	5,235	40,196
2012	36,623	3,571	40,194
2013	38,366	1,827	40,193
	<u>\$ 337,981</u>	<u>\$ 92,868</u>	<u>\$ 430,849</u>

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorized the payment of the State Aid Payments directly to the Authority's Depository.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**

**ADDITIONAL REPORTS REQUIRED BY**

**OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2008**

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Timothy J. Orians  
Dennis D. Theis  
James A. McNeeley  

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Mecosta-Osceola Intermediate School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2008, which collectively comprise Mecosta-Osceola Intermediate School District's basic financial statements and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mecosta-Osceola Intermediate School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Mecosta-Osceola Intermediate School District in a separate letter dated September 8, 2008.

This report is intended for the information and use of the Board of Education, management and U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costeniser & Ellis, P.C.*

September 8, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Mecosta-Osceola Intermediate School District

Compliance

We have audited the compliance of Mecosta-Osceola Intermediate School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Mecosta-Osceola Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Mecosta-Osceola Intermediate School District's management. Our responsibility is to express an opinion on Mecosta-Osceola Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mecosta-Osceola Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Mecosta-Osceola Intermediate School District's compliance with those requirements.

In our opinion, Mecosta-Osceola Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

### Internal Control Over Compliance

The management of Mecosta-Osceola Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of Mecosta-Osceola Intermediate School District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we would consider to be material weaknesses, as defined above.

### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Mecosta-Osceola Intermediate School District as of for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Mecosta-Osceola Intermediate School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer, Costeniser & Ellis, P.C.*

September 8, 2008

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2007	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2008
<u>U.S Department of Education:</u>								
Passed through Michigan Department of Education:								
Title I Part D	84.010	061700-0607	\$ 204,621	\$ 21,138	\$ 202,853	\$ 21,138	\$ -	\$ -
		071700-0607	155,445	74,425	117,161	112,709	38,284	-
		081700-0708	317,121	-	-	159,988	254,309	94,321
			677,187	95,563	320,014	293,835	292,593	94,321
Special Education Cluster:								
IDEA	84.027	070450-0607	2,107,955	397,911	2,089,017	416,749	18,938	100
		080450-0708	2,104,120	-	-	1,669,750	1,974,024	304,274
		070480-EOSD	50,000	1,553	50,000	1,553	-	-
		080480-EOSD	50,000	-	-	50,000	50,000	-
		070440-0607	4,000	1,478	1,478	1,478	-	-
		070490-TS	70,000	32,590	66,643	32,590	-	-
		080490-TS	60,000	-	-	48,779	53,963	5,184
			4,446,075	433,532	2,207,138	2,220,899	2,096,925	309,558
Preschool Incentive								
	84.173	070460-0607	100,578	19,166	100,403	19,341	175	-
		080460-0708	100,241	-	-	77,858	99,617	21,759
			200,819	19,166	100,403	97,199	99,792	21,759
Total Special Education Cluster			4,646,894	452,698	2,307,541	2,318,098	2,196,717	331,317

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2007	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2008
U.S Department of Education (Continued):								
Passed through Michigan Department of Education (Continued):								
Vocational Education - Basic Grants to States (Perkins II):	84.048	073520-701207	\$ 360,751	\$ 114,120	\$ 360,751	\$ 114,120	\$ -	\$ -
		083520-801207	356,096	-	-	310,379	356,096	45,717
			716,847	114,120	360,751	424,499	356,096	45,717
Infant Toddler Formula	84.181	071340-190	97,034	28,849	78,385	47,498	18,649	-
		081340-190	96,258	-	-	60,790	64,595	3,805
			193,292	28,849	78,385	108,288	83,244	3,805
Homeless Children & Youths	84.196	072320-0607	27,988	3,458	20,925	3,458	-	-
		072320-0708-C	6,877	-	-	-	6,877	6,877
		082320-0708	26,774	-	-	24,417	24,455	38
			61,639	3,458	20,925	27,875	31,332	6,915
Title V LEA Allocation	84.298	060250-0607	1,351	1,046	1,196	1,046	-	-
		070250-0607	1,001	-	-	-	-	-
		080250-0708	2,006	-	-	565	1,657	1,092
			4,358	1,046	1,196	1,611	1,657	1,092
Improving Teacher Quality	84.367	060520-0607	724	724	724	724	-	-
		070520-0607	724	-	-	-	-	-
		080250-0708	1,448	-	-	1,400	1,448	48
			2,896	724	724	2,124	1,448	48
Total passed through Michigan Department of Education and U.S. Department of Education			6,303,113	696,458	3,089,536	3,176,330	2,963,087	483,215

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2008**

Federal grantor/pass-through grantor/program title	CFDA number	Pass-through number	Approved amount	Accrued (deferred) July 1, 2007	Prior year expenditures (memorandum only)	Current year receipts	Current year expenditures	Accrued (deferred) June 30, 2008
Passed through Saginaw Valley State University: Title II B-1 Mathematics & Science Partnership	84.366B	072410-MSPF20	\$ 124,800	\$ -	\$ -	\$ 38,919	\$ 78,313	\$ 39,394
<u>U.S. Department of Health and Human Services:</u>								
Passed through Michigan Department of Community Health Medicaid - Administrative Outreach Claiming	93.778		78,881	-	-	78,881	78,881	-
Total Federal Awards			\$ 6,506,794	\$ 696,458	\$ 3,089,536	\$ 3,294,130	\$ 3,120,281	\$ 522,609

The accompanying notes are an integral part of this schedule.



**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
PASS THROUGH AMOUNTS  
YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2007</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2008</u>
<u>U.S. Department of Education:</u>							
Passed through the Michigan Department of Education:							
Perkins Vocational Education Regional Allocation -	84.048						
Project number 073520-701207 - Passed through to:							
Mason-Lake ISD		\$ 111,103	\$ -	\$ -	\$ 111,103	\$ 111,103	\$ -
Newaygo ISD		111,388			111,388	111,388	-
		<u>222,491</u>	<u>-</u>	<u>-</u>	<u>222,491</u>	<u>222,491</u>	<u>-</u>
Total Perkins Regional Allocation							
		<u>222,491</u>	<u>-</u>	<u>-</u>	<u>222,491</u>	<u>222,491</u>	<u>-</u>
Total passed through the Michigan Department of Education		<u>222,491</u>	<u>-</u>	<u>-</u>	<u>222,491</u>	<u>222,491</u>	<u>-</u>
<u>U.S. Department of Health and Human Services:</u>							
Medicaid Administrative Outreach:	93.778						
Passed through to:							
Big Rapids Public Schools		14,652	3,889	14,652	-	3,889	-
Chippewa Hills School District		9,909	2,162	9,909	-	2,162	-
Crossroads Charter Academy		3,006	597	3,006	-	597	-
Evart Public Schools		3,889	930	3,889	-	930	-
Morley Stanwood Community Schools		3,384	827	3,384	-	827	-
Reed City Area Public Schools		4,765	1,279	4,765	-	1,279	-
		<u>39,605</u>	<u>9,684</u>	<u>39,605</u>	<u>-</u>	<u>9,684</u>	<u>-</u>
Total Medicaid Administrative Outreach							

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PASS THROUGH AMOUNTS**  
**YEAR ENDED JUNE 30, 2008**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Subrecipient award/contract amount</u>	<u>Due to (from) subrecipient July 1, 2007</u>	<u>(Memo only) Subrecipient prior year expenditures</u>	<u>Subrecipient current year expenditures</u>	<u>Current year cash transferred to subrecipient</u>	<u>Due to (from) subrecipient June 30, 2008</u>
Passed through to:							
Big Rapids Public Schools		\$ 15,316	\$ -	\$ -	\$ 15,316	\$ 3,143	\$ 12,173
Chippewa Hills School District		10,382	-	-	10,382	1,650	8,732
Crossroads Charter Academy		2,676	-	-	2,676	592	2,084
Ewart Public Schools		3,850	-	-	3,850	683	3,167
Morley Stanwood Community Schools		3,317	-	-	3,317	642	2,675
Reed City Area Public Schools		4,929	-	-	4,929	922	4,007
		<u>40,470</u>	<u>-</u>	<u>-</u>	<u>40,470</u>	<u>7,632</u>	<u>32,838</u>
Total Medicaid Administrative Outreach		<u>40,470</u>	<u>-</u>	<u>-</u>	<u>40,470</u>	<u>7,632</u>	<u>32,838</u>
Total federal funds passed through to subrecipients		<u>\$ 302,566</u>	<u>\$ 9,684</u>	<u>\$ 39,605</u>	<u>\$ 262,961</u>	<u>\$ 239,807</u>	<u>\$ 32,838</u>

The accompanying notes are an integral part of this schedule.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

NOTES:

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards includes the federal grant activities of Mecosta-Osceola Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and reconciles with the amounts in the preparation of the financial statements.
2. CFDA Programs Special Education Cluster 84.027 and 84.173 were audited as the major programs representing 70% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The expenditures on the schedule of expenditures of federal awards do not include local match.
5. Expenditures in this schedule have been reconciled with Michigan Department of Education financial reports (DS4044, DS4092A, and other applicable reports).
6. Management has utilized the Grant Section Auditors Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
7. Federal revenue per financial statements

General Fund	\$ 112,750
Special Education Fund	2,651,435
Vocational Education Fund	<u>356,096</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 3,120,281</u></u>
8. Subrecipients - Of the federal expenditures presented in the schedule of expenditures of federal awards, Mecosta-Osceola Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Type of auditors' report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be Reported with Section 510(a) of OMB Circular A-133?

\_\_\_\_\_ Yes   X   No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

  X   Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None

**Section III - Federal Award Findings and Questioned Costs**

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None

**MECOSTA-OSCEOLA INTERMEDIATE SCHOOL DISTRICT  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

There were no findings for the prior two years.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raeck  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis  
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 8, 2008

To the Board of Education  
Mecosta-Osceola Intermediate School District

In planning and performing our audit of the financial statements of Mecosta-Osceola Intermediate School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 8, 2008 on the financial statements of Mecosta-Osceola Intermediate School District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

### **Month-end procedures checklist**

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as, a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

### **Uninsured bank deposits**

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

### **Periodically Change Computer Passwords**

We understand that computer passwords are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. The District may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Mecosta-Osceola Intermediate School District, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

*Mamie Costeniser & Ellis, P.C.*





Lamonte T. Lator  
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Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

September 8, 2008

To the Board of Education  
Mecosta-Osceola Intermediate School District  
Big Rapids, Michigan

We have audited the financial statements of Mecosta-Osceola Intermediate School District for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Mecosta-Osceola Intermediate School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Mecosta-Osceola Intermediate School District's financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Mecosta-Osceola Intermediate School District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Mecosta-Osceola Intermediate School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Mecosta-Osceola Intermediate School District's compliance with those requirements.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 6, 2008.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mecosta-Osceola Intermediate School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any significant disclosures.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 8, 2008.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mecosta-Osceola Intermediate School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Mecosta-Osceola Intermediate School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mayer, Costeniser & Ellis, P.C.*